

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Financial Statements, Supplementary Information, and
Management's Discussion and Analysis

June 30, 2005

(With Independent Auditors' Reports Thereon)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

June 30, 2005

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information	14
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Audit Compliance and Internal Control Questionnaire	21
Certificate of Assistant Secretary	26



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Penderbrook, Project No. 880149 (the Project), as of and for the year ended June 30, 2005 as listed in the accompanying table of contents. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Virginia Housing Development Authority's *Mortgagor/Grantee's Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Project are intended to present the financial position and changes in financial position and cash flows of only the Project. They do not purport to, and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the Project referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2005, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the Project's financial statements taken as a whole. The supplementary information on pages 14 to 18 is presented for purposes of additional analysis and is not a required part of the Project's financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

September 2, 2005

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2005

Introduction

The Fairfax County Redevelopment and Housing Authority (FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment and revitalization programs within Fairfax County as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors created the Department of Housing and Community Development (HCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County's low and moderate income residents.

The FCRHA presents this discussion and analysis of Penderbrook, Project No. 880149 (the Project) for the fiscal year ended June 30, 2005 to assist the reader in focusing on significant financial issues. The Project consists of 48 rental units and is included in the overall Fairfax County Rental Program.

The Project's Financial Highlights for Fiscal Year 2005 (FY 2005)

In summary, the Project's FY 2005 financial highlights included the following:

- At June 30, 2005, total assets and liabilities were approximately \$2.8 million and \$.6 million, respectively; thus total net assets were approximately \$2.2 million.
- Total revenues and expenses were \$403,432 and \$387,707, respectively; thus net assets increased by \$15,725 in FY 2005.
- Cash flows from operating activities amounted to \$170,088. After considering investing and capital and related financial activities, there is a net increase in cash of \$100,400.

Project Financial Statements

This discussion and analysis presents the Project's financial results in three financial statements – the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The FY 2005 financial results are compared to those of FY 2004, thus allowing the readers to ascertain the reasons for changes in expenses, revenues, or net asset balances. These financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, the financial statements recognize revenues in the period they are earned and expenses in the period they are incurred.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2005

Summary of Net Assets

The Project's FY 2005 and FY 2004 statements of net assets report all financial and capital assets of the Project and are presented in a format where assets minus liabilities equals net assets. The following table reflects a condensed summary of net assets as of June 30, 2005 and 2004.

Table 1
Summary of Net Assets
June 30, 2005 and 2004

Description	2005	2004	Increase (decrease)
Current and other assets	\$ 1,052,536	950,156	102,380
Capital assets	1,786,990	1,891,749	(104,759)
Total assets	2,839,526	2,841,905	(2,379)
Current liabilities	64,740	57,445	7,295
Noncurrent liabilities	578,390	603,789	(25,399)
Total liabilities	643,130	661,234	(18,104)
Net assets:			
Invested in capital assets, net of related debt	1,186,340	1,270,999	(84,659)
Restricted	549,343	493,099	56,244
Unrestricted	460,713	416,573	44,140
Total net assets	\$ 2,196,396	2,180,671	15,725

The Project's net assets include unrestricted net assets of \$460,713 and restricted net assets of \$549,343. Restricted net assets of the Project consist of funded reserves required by the mortgagee. Unrestricted net assets include cash on deposit with Fairfax County and tenant accounts receivable.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2005

Summary of Revenues, Expenses, and Changes in Net Assets

The Project's statement of revenues, expenses, and changes in net assets include operating revenues, such as rental income; operating expenses, such as administrative, utilities, repairs and maintenance, and depreciation, and nonoperating revenues and expenses, such as investment income and interest expense. The statement reflects an increase in net assets in FY 2005 of \$15,725. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net assets.

Table 2

Summary of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

Description	2005	2004	Increase (decrease)
Revenues:			
Operating revenues	\$ 390,196	368,981	21,215
Nonoperating revenues	13,236	11,736	1,500
Total revenues	403,432	380,717	22,715
Expenses:			
Operating expenses	325,055	368,528	(43,473)
Nonoperating expenses	62,652	64,467	(1,815)
Total expenses	387,707	432,995	(45,288)
Change in net assets	15,725	(52,278)	68,003
Total net assets, beginning of year	2,180,671	2,232,949	(52,278)
Total net assets, end of year	\$ 2,196,396	2,180,671	15,725

In FY 2005, the Project's operating expenses totaled \$325,055. Nonoperating expenses represent interest on the mortgage. The decrease in operating expenses in FY 2005 is primarily a result of a decrease in scheduled maintenance.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Management's Discussion and Analysis (MD&A)

June 30, 2005

Capital Assets and Debt Administration

The Project's capital assets as of June 30, 2005 included land, buildings and improvements, and equipment, that totaled \$1,786,990, net of accumulated depreciation of \$1,510,361. A breakdown of these assets is shown in the following table.

Table 3
Change in Capital Assets of the Penderbrook Project
Year ended June 30, 2005

Description	Beginning balance	Net change	Ending balance
Nondepreciable assets:			
Land	\$ 649,636	—	649,636
Depreciable capital assets:			
Buildings and improvements	2,587,486	—	2,587,486
Equipment	60,229	—	60,229
Accumulated depreciation	(1,405,602)	(104,759)	(1,510,361)
Totals	\$ 1,891,749	(104,759)	1,786,990

The Virginia Housing Development Authority provided the permanent financing for the purchase of the land and buildings. The outstanding balance of the mortgage amounted to \$600,650 and \$620,750 at June 30, 2005 and 2004, respectively. The decrease in 2005 is a result of scheduled principal payments.

Project Challenges for the Future

Built in the late 1980s, the Project's existing mechanical system, a straight electric resistant heat and electric air conditioning system, was replaced in FY 2005. All costs associated with the replacement of the HVAC system were funded entirely out of the Project's replacement reserves. Other improvements are planned for the Project including kitchen cabinets and appliances, windows, and exterior siding replacements, and will be started in FY 2006.

Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, tenants, and investors and creditors with a general overview of the Project's finances, and to demonstrate the Project's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia, 22030.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Statement of Net Assets

June 30, 2005

Assets

Current assets:

Cash on deposit with County of Fairfax, Virginia	\$ 500,663
Accounts receivable (net of allowance for doubtful account of \$4,275)	2,530
Total current assets	<u>503,193</u>

Noncurrent assets:

Restricted assets (note 4):	
Replacement reserves	549,343
Total restricted assets	<u>549,343</u>

Capital assets (note 3):

Nondepreciable:	
Land	649,636
Depreciable:	
Buildings and improvements	2,587,486
Equipment	60,229
Accumulated depreciation	<u>(1,510,361)</u>
Total capital assets, net	<u>1,786,990</u>
Total assets	<u>2,839,526</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	13,879
Deposits held in trust	15,799
Deferred revenue	6,121
Accrued compensated absences	6,681
Mortgage payable (note 4)	<u>22,260</u>
Total current liabilities	<u>64,740</u>

Noncurrent liabilities:

Mortgage payable (note 4)	<u>578,390</u>
Total liabilities	<u>643,130</u>

Net Assets

Invested in capital assets, net of related debt	1,186,340
Restricted net assets	549,343
Unrestricted net assets	<u>460,713</u>
Total net assets	<u>\$ 2,196,396</u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2005

Operating revenues:	
Dwelling rentals	\$ 386,875
Other	3,321
	<hr/>
Total operating revenues	390,196
	<hr/>
Operating expenses:	
Personnel services	101,424
Utilities	12,151
Repairs and maintenance	62,971
Administrative expenses	43,750
Depreciation	104,759
	<hr/>
Total operating expenses	325,055
	<hr/>
Operating income	65,141
	<hr/>
Nonoperating revenues (expenses):	
Interest revenue	13,236
Interest expense	(62,652)
	<hr/>
Total nonoperating expenses, net	(49,416)
	<hr/>
Change in net assets	15,725
	<hr/>
Total net assets, beginning of year	2,180,671
	<hr/>
Total net assets, end of year	\$ 2,196,396
	<hr/> <hr/>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Statement of Cash Flows

Year ended June 30, 2005

Cash flows from operating activities:	
Rental income received	\$ 388,660
Miscellaneous income received	3,321
Personnel expenses paid	(102,356)
Administrative expenses paid	(43,750)
Operating and maintenance expenses paid	(63,691)
Utilities paid	(12,151)
Net tenant security deposits received	55
Net cash provided by operating activities	<u>170,088</u>
Cash flows from investing activities:	
Interest received	<u>13,236</u>
Net cash provided by investing activities	<u>13,236</u>
Cash flows from capital and related financing activities:	
Principal payments on mortgage payable	(20,100)
Interest payments on mortgage payable	<u>(62,824)</u>
Net cash used in capital and related financing activities	<u>(82,924)</u>
Net increase in cash	100,400
Cash, beginning of year	<u>949,606</u>
Cash, end of year	<u><u>\$ 1,050,006</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 65,141
Depreciation	104,759
Increase in accounts receivable	(1,980)
Decrease in accounts payable and accrued liabilities	(398)
Decrease accrued compensated absences	(1,254)
Increase in deferred revenue	3,765
Increase deposit held in trust	55
Net cash provided by operating activities	<u><u>\$ 170,088</u></u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Notes to Financial Statements

June 30, 2005

(1) Narrative Profile

The Fairfax County Redevelopment and Housing Authority (the Authority), Rental Program – Penderbrook, Project No. 880149 (the Project) is comprised of two 24-unit apartment buildings included in the Fairfax County Rental Program. The Project is part of the privately owned Penderbrook community, which consists of approximately 1,800 housing units. The developers sold the land and buildings to the Fairfax County Redevelopment and Housing Authority (the Authority) on September 7, 1988. The purchase price of the Project was financed by appropriations from the County of Fairfax, Virginia (the County) and a 30-year mortgage from the Virginia Housing Development Authority (the VHDA). The Authority is a component unit of the County.

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the Project and are not intended to present fairly the financial position, changes in financial position, and cash flows of the Authority in conformity with generally accepted accounting principles in the United States of America (GAAP).

(2) Summary of Significant Accounting Policies

The accounting policies of the Project conform to GAAP as applicable to proprietary fund types of governmental units. The following is a summary of the Project's more significant accounting policies:

(a) *Basis of Accounting*

The activities of the Project are accounted for on an economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The Project applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989, unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

(b) *Cash on Deposit with County of Fairfax, Virginia*

Project cash is maintained and administered by the County Investment/Cash Management Division. To optimize investment returns, the Project's funds are invested together with all other County pooled funds, all of which are fully insured and collateralized. The County allocates investment income to the Project based on its average cash balance.

(c) *Restricted Assets and Deposit Held in Trust*

Restricted assets represent deposits and funded reserves held by the VHDA, a state-housing-finance agency, pursuant to the regulatory agreement. All amounts are fully insured and collateralized. Such restricted assets have been included in cash for purposes of the statement of cash flows.

Deposits held in trust reflect amounts collected as security deposits from tenants, which are included in the Project's Cash on Deposit with County of Fairfax, Virginia in the basic financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Notes to Financial Statements

June 30, 2005

(d) *Capital Assets*

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and have a useful life of greater than one year. Capital assets are recorded at cost when purchased or at fair market value when donated. Depreciation on buildings and equipment is calculated using the straight-line method over estimated useful lives of 27.5 years for buildings and improvements and five to ten years for furniture and equipment. Depreciation is not recorded on land.

(e) *Compensated Absences*

Employees of the Project are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current rate of pay, up to certain limits. Sick leave does not vest with employees. Accumulated vacation is recorded as an expense and an accrued liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary-related payments (e.g., employer's share of social security taxes).

(f) *Revenue Recognition*

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned.

(g) *Operating Revenues and Expenses*

The Project's policy is to report all project revenues and expenses as operating with the exception of interest income and expense.

(h) *Implementation of New GASB Standards*

In FY 2005, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Notes to Financial Statements

June 30, 2005

(3) Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	\$ 649,636	—	—	649,636
Capital assets, being depreciated:				
Buildings and improvements	2,587,486			2,587,486
Equipment	60,229	—	—	60,229
Total capital assets being depreciated	2,647,715	—	—	2,647,715
Less accumulated depreciation for:				
Buildings and improvements	(1,390,716)	(94,090)	—	(1,484,806)
Equipment	(14,886)	(10,669)	—	(25,555)
Total accumulated depreciation	(1,405,602)	(104,759)	—	(1,510,361)
Capital assets, net	\$ 1,891,749	(104,759)	—	1,786,990

(4) Mortgage Loan Payable

The VHDA provided the permanent financing for the purchase of the Project's land and buildings. The outstanding balance of the mortgage loan carries an interest rate of 10.25% with final payment due October 1, 2018. The monthly principal and interest payment is \$6,900.

The land, buildings and equipment of the Project are pledged as security for the mortgage loan. The Project maintains certain restricted deposits and funded reserves as required by the VHDA.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Notes to Financial Statements

June 30, 2005

The aggregate amount of the required principal and interest payments on the mortgage loan as of June 30, 2005 is \$1,103,999 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2006	\$ 22,260	60,540
2007	24,651	58,149
2008	27,300	55,499
2009	30,234	52,566
2010	33,483	49,317
2011–2015	229,765	184,235
2016–2019	232,957	43,043
Total	<u>\$ 600,650</u>	<u>503,349</u>

Noncurrent liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Mortgage payable	\$ 620,750	—	(20,100)	600,650	22,260

(5) Risk Management

The Project is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the Project participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2005.

SUPPLEMENTARY INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

June 30, 2005

The following supplementary information is presented for the purpose of additional analysis:

Accrued Liabilities

Accrued liabilities represent salaries and fringe benefits earned during the final payroll cycle of June 2005 and vacation earned but not used as of June 30, 2005.

Delinquent Tenant Accounts Receivable

	Number of tenants	Amounts past due
Delinquent 0-30 days	3	\$ 950
Delinquent 31-60 days	2	831
Delinquent over 60 days	4	5,024
Balance at June 30, 2005	9	\$ 6,805

Tenant Security Deposits

As of June 30, 2005, consistent with County of Fairfax, Virginia, treasury procedures, tenant security deposits are not maintained in a separate trust fund. The VHDA has waived the requirement to deposit tenant security deposits in a separate account from all other funds of the Project.

Accounts Payable and Accrued Liabilities

Payable within 30 days	\$ 13,879
Payable within 31-60 days	—
Balance at June 30, 2005	\$ 13,879

Payables due in more than 60 days, all payables due mortgagee, and all payables due Management Agent:

Creditor	Purpose	Date incurred	Terms	Original amount	Amount due
VHDA	Mortgage	September 1988	30 years	\$ 770,000	600,650

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

June 30, 2005

Schedule of Surplus Cash and Residual Receipts

Cash in treasury of County of Fairfax, Virginia	\$	500,663
Less current obligations:		
Tenant security deposits		15,799
Accounts payable and accrued liabilities (due within 30 days)		13,879
Prepaid revenue		6,121
		<hr/>
Total current obligations		35,799
		<hr/>
Surplus cash and residual receipts to be deposited to operating reserve account*	\$	<u><u>464,864</u></u>

*The VHDA has waived the requirements to deposit surplus cash and residual receipts for the Project.

Reserve for Replacements

In accordance with the provisions of the Regulatory Agreement, restricted cash is held by VHDA to be used for replacement of property with the approval of VHDA as follows:

Balance as of June 30, 2004, confirmed by mortgagee	\$	493,099
Monthly deposits		43,008
Interest earned		13,236
Withdrawals		—
		<hr/>
Balance as of June 30, 2005, confirmed by mortgagee	\$	<u><u>549,343</u></u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2005

Part I	Description of Account	Acct. No.	Amount	
Income 5100	Stores and Commercial	5140	386,875	
	Garage and Parking Spaces	5170	—	
	Flexible Subsidy Income	5180	—	
	Miscellaneous (specify)	5190	—	
	Total Rent Revenue Potential at 100% Occupancy			\$ 386,875
Vacancies 5200	Apartments	5220	—	
	Furniture and Equipment	5230	—	
	Stores and Commercial	5240	—	
	Garage and Parking Spaces	5270	—	
	Miscellaneous (specify)	5290	—	
	Total Vacancies			\$ —
	Net Rental Revenue			\$ 386,875
	Elderly and Congregate Services Income - 5300			
	Total Service Income (Schedule Attached)	5300	—	—
Financial Revenue	Interest Income – Project Operations	5410	—	
	Income from Investments – Residual Receipts	5430	—	
	Income from Investments – Reserve for Replacement	5440	13,236	
	Income from Investments – Miscellaneous	5490	—	
	Total Financial Revenue			\$ 13,236
Other Revenue 5900	Laundry and Vending	5910	—	
	NSF and Late Charges	5920	2,844	
	Damages and Cleaning Fees	5930	—	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (Schedule attached)	5990	477	
	Total Other Revenue			\$ 3,321
	Total Revenue			\$ 403,432
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	27,026	
	Office Salaries	6310	86,225	
	Office Supplies	6310	902	
	Office or Model Apartment Rent	6312	—	
	Management	6320	—	
	Manager or Superintendent Salaries	6330	—	
	Manager or Superintendent Rent Free Unit	6331	—	
	Legal Expenses – Project	6340	475	
	Audit Expense – Project	6350	8,000	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	4,985	
	Miscellaneous Administrative Expenses (specify)	6390	—	
	Total Administrative Expenses			\$ 127,613
Utilities Expense 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	1,421	
	Water	6451	10,730	
	Gas	6452	—	
	Sewer	6453	—	
	Total Utilities Expense			\$ 12,151

(Continued)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2005

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	—	
	Janitor and Cleaning Supplies	6515	—	
	Janitor and Cleaning Contract	6517	7,843	
	Exterminating Payroll / Contract	6519	1,068	
	Exterminating Supplies	6520	—	
	Garbage and Trash Removal	6525	6,185	
	Security Payroll / Contract	6530	—	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	—	
	Grounds Contract	6537	12,701	
	Repairs Payroll	6540	—	
	Repairs Material	6541	32,053	
	Repairs Contract	6542	—	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	—	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	—	
	Decorating Payroll / Contract	6560	—	
	Decorating Supplies	6561	—	
	Other	6570	3,081	
	Miscellaneous Operating and Maintenance Expenses	6590	469	
	Total Operating and Maintenance Expenses			\$ 63,400
Taxes and Insurance 6700	Real Estate Taxes	6710	—	
	Payroll Taxes (FICA)	6711	—	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—	
	Property and Liability Insurance (Hazard)	6720	—	
	Fidelity Bond Insurance	6721	—	
	Workmen's Compensation	6722	—	
	Health Insurance and Other Employee Benefits	6723	17,132	
	Other Insurance (specify)	6729	—	
	Total Taxes and Insurance			\$ 17,132
Financial Expenses 6800	Interest on Bonds Payable	6810	—	
	Interest on Mortgage Payable	6820	62,528	
	Interest on Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	—	
	Miscellaneous Financial Expenses	6890	124	
	Total Financial Expenses			\$ 62,652
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900		\$ —
	Total Cost of Operations Before Depreciation			\$ 282,948
	Profit (Loss) Before Depreciation			\$ 120,484
	Depreciation and Amortization	6600		\$ 104,759
	Operating Profit or (Loss)			\$ 15,725
Corporate or Mortgagor Entity Expenses 7100	Officer Salaries	7110		
	Legal Expenses – (Entity)	7120		
	Taxes (Federal – State – Entity)	7130-32		
	Other Expenses (Entity)	7190		
	Total Corporate Expenses			\$ —
	Net Profit or (Loss)			\$ 15,725

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Supplementary Information

Changes in Capital Asset Accounts

Year ended June 30, 2005

	Capital Assets			Accumulated Depreciation		Net book value
	Balance June 30, 2004	Additions	Balance June 30, 2005	Balance June 30, 2004	Current provision	
Land	\$ 649,636	—	649,636	—	—	649,636
Buildings and improvements	2,587,486	—	2,587,486	1,390,716	94,090	1,102,680
Equipment	60,229	—	60,229	14,886	10,669	34,674
	<u>\$ 3,297,351</u>	<u>—</u>	<u>3,297,351</u>	<u>1,405,602</u>	<u>104,759</u>	<u>1,786,990</u>

See accompanying independent auditors' report.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the basic financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Penderbrook, Project No. 880149 (the Project) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Mortgagor/Grantee's Audit Guide*, issued by the Virginia Housing Development Authority.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project's management and the Virginia Housing Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 2, 2005

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2005

Project Name: Rental Program – Penderbrook

Project Number: 880149

Fiscal Year End: June 30, 2005

Answers to these questions should be based upon a review of procedures and/or an actual test of transactions. “No” answers may be indicative of an adverse condition which must be described in the audit report unless the Mortgagor/Grantee has written permission from VHDA to deviate from the regular mortgage/grant requirements.

The following questionnaire is a required part of this report per the VHDA Mortgagor’s Audit Guide. The responses to the questions were entered by KPMG based on the results of inquiry and observations related to the item addressed. KPMG considered these items in preparing its report on internal control and this questionnaire should be read in conjunction with that report.

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP reference</u>
1. Mortgage Status				
a. Are payments on all mortgages current?	<u>X</u>	<u> </u>	<u> </u>	<u>I’s</u>
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout arrangement?	<u> </u>	<u> </u>	<u>X</u>	<u>N/A</u>
c. If the workout agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within thirty days after the end of the specified period?	<u> </u>	<u> </u>	<u>X</u>	<u>N/A</u>
2. Books and Records				
a. Are a complete set of books and records maintained in a satisfactory manner?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-F-series</u>
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-F-series</u>
3. Cash Activities				
a. Are the cash receipts deposited in an account in the name of the development?	<u> </u>	<u>X as approved by VHDA</u>	<u> </u>	<u>GB-I-series</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2005

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP reference</u>
b. Are all account balances federally insured?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
c. If a centralized account is used, is it limited to disbursements?	<u> </u>	<u>X as approved by VHDA</u>	<u> </u>	<u>GB-I-series</u>
d. On assisted developments, are security deposits kept in an account separate and apart from all other funds of the development?	<u> </u>	<u>X as approved by VHDA</u>	<u> </u>	<u>GB-I-series</u>
e. On assisted developments, does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
f. Does a fidelity bond in an amount at least equal to potential collections for two months (one month on Section 8 uninsured developments) that provides coverage for all employees handling cash?	<u>X</u>	<u> </u>	<u> </u>	<u>PF-11-7</u>
g. Did cash disbursements exclude payments for items listed below:	<u> </u>	<u> </u>	<u> </u>	<u> </u>
• Legal expenses incurred in the sale of partnership interest?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
• The fee for the preparation of a partner's, shareholder's or individual's federal, state, or local income tax returns?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
• Expenses for advice to an owner on tax consequences of foreclosure?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
• Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance, or provisional workout arrangements?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2005

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP reference</u>
• Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	<u>X</u>	<u> </u>	<u> </u>	<u>B-3</u>
h. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of VHDA, while the development was in a “surplus cash” position?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
Note: If development was operating under a modification or forbearance agreement and/or a provisional workout arrangement, is it not in a “surplus cash” position for the purposes of distributions?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
Note: The use of rental proceeds to pay for costs included in the Mortgagor/Grantee’s cost certification are there no unauthorized distributions of development income?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request of such deposit?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
j. Were excess rental collections in Section 236 developments remitted to HUD each month?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
k. Does the Mortgagor/Grantee have a formal rent collection policy?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
l. Is the collection policy uniformly enforced?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
m. Is there a formal procedure for write-off of bad debts?	<u>X</u>	<u> </u>	<u> </u>	<u>L-1</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2005

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP reference</u>
n. Were there indications that payments for services, supplies, or materials were not substantially in excess of amounts normally paid for such services in order to assure the most advantageous terms to the development?	<u>X</u>	<u> </u>	<u> </u>	<u>M-series</u>
o. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
4. Management Compensation				
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
b. Did agent not charge development for expenses which the Management Agreement requires agent to pay?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
5. Rents and Occupancy				
a. On unassisted developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent Rent Schedule maintained by the Management Agent?	<u>X</u>	<u> </u>	<u> </u>	<u>L-series</u>
b. On an unassisted development with federal tax credits, are rents in conformance with Federal Low Income Housing Tax Credit (IRS Section 42) program guidelines and the Extended Use Agreement (EUA)?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
c. On subsidized developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, HUD No. 92458?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook

(Project No. 880149)

Audit Compliance and Internal Control Questionnaire

June 30, 2005

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP reference</u>
6. VHDA/HUD Subsidy Payments (Section 8/RAP Developments Only)				
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?	_____	_____	X	None
b. Were subsidy receipts recorded in the proper accounts?	_____	_____	X	None
c. Were utility allowance payments paid to residents within five business days of receipt from VHDA and in an amount equal to the corresponding utility allowance subsidy amounts received?	_____	_____	X	None
d. Were all uncashed allowance payments refunded to VHDA (via a Part II adjustment to the monthly Housing Assistance Payment) within six months of initial issuance by VHDA	_____	_____	X	None

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Rental Program – Penderbrook
(Project No. 880149)

Certificate of Assistant Secretary

June 30, 2005

I hereby certify that I have examined the accompanying financial statements, supplementary information, and management's discussion and analysis and, to the best of my knowledge and belief, they are complete and accurate.

Mary A. Stevens
Assistant Secretary
Fairfax County Redevelopment and
Housing Authority
Employer Identification Number 52-1464034